UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Interstate Electric Transmission System;
Electric Reliability Issues;
Notice of Inquiry

COMMENTS
OF DAIRYLAND POWER COOPERATIVE

Dairyland Power Cooperative ("Dairyland"), by its attorneys, Wheeler, Van Sickle & Anderson, S.C., files these Comments in connection with the Notice of Inquiry and request for comments issued by the Department of Energy ("DOE"). *See*, 65 Fed. Reg. 69,753 (November 20, 2000). In particular, Dairyland responds to the specific questions posited by the DOE in its Notice as follows:

1. **Is the existing arrangement of voluntary compliance with industry reliability rules sufficient to ensure reliability of the bulk power transmission system? If not, why not, and has reliability been jeopardized by violations of the existing bulk power reliability standards?**

Response: The expectation of voluntary compliance with industry reliability rules is not sufficient to ensure reliability of the bulk power transmission system. As restructuring progresses, there is continuing, or even increasing, pressure for utilities to reduce costs. If a utility finds that it can reduce its costs if it does not comply with a particular reliability standard, without imposing what the utility

perceives to be an undue reliability risk, then it is likely that the utility will not comply voluntarily with the standard.

It is generally accepted that the economic ramifications of providing the generation reserves necessary to insure reliable operation drive practices that are less than optimal from a reliability standpoint. Mandated segmentation of operations between marketing (the economic aspect) and transmission (control area, and typically the reliability aspect) has provided even greater differences between those two segments. Assessing real time operations requires a view of all the production and delivery functions and limitations. It is extremely difficult to assess reliable real time operations when each segment of the energy generation and delivery process (*i.e.*, generation, transmission, and distribution) has its own parochial or focused view of its segment. One of the realities of the mandated unbundling is that the unbundled groups are limited in what may be observed and discussed. Further, applications and procedures put in place to compensate for the loss of the global view and to improve coordination of the unbundled areas are complicated, extremely inefficient, and tedious to the point that there is no time or flexibility to accommodate dynamic system changes (*i.e.*, the generating and delivery equipment failures that occur daily).

Successful compliance (voluntary or mandated) will necessitate that required reserves are economically equivalent to other potential market transactions. Voluntary compliance has yet to address components that are typically utilized (gamed) to a utility's economic advantage (*e.g.*, lack of financial payment or

penalty for inadvertent energy, no established standards/limits regarding “parking and hubbing” of energy, etc).

The Cinergy situation in 1999 best demonstrates the problems that may occur as a result of not having defined policy and compensation/penalties for inadvertent energy. It appears that Cinergy was unable to secure sufficient transmission service on constrained paths to import energy into its control area. Instead of taking emergency load reduction measures, it opted to “lean” on the Eastern Interconnection, which caused frequency to decline and overloaded constrained transmission paths. (Note that the Mid-Continent Area Power Pool (MAPP) Operating Procedures Subcommittee came to the conclusion that the frequency decline did not pose a reliability threat. However, if other control areas observed that Cinergy avoided paying for energy during a market spike by leaning on the Eastern Interconnection, they may decide to do the same in the future. Should that happen, the frequency degradation could be enough to cause damage to generators, under-frequency tripping of generators and load, and possibly a system shut-down.)

With respect to “parking and hubbing,” reliability can be jeopardized when the merchant side of the energy business is not truthful when it specifies points of delivery (POD) and points of receipts (POR) for reserving transmission. A frequent problem is when energy is sunk into a control area on one side of a constrained interface, and sourced in the same control area but on the downstream side of the constraint. This practice allows energy to be wheeled through the control area without decrementing Available Transmission Capacity (ATC) on the

constrained interface. This can result in over-booking of the constrained interface, forcing the Transmission Provider to call for Transmission Loading Relief (TLR) without a contingency. In addition to the reliability issue, there are equity issues where merchants who made appropriate transmission reservations get transmission service curtailed while those who have gamed the system are not curtailed.

2. What can FERC do under existing authorities to address reliability concerns?

Response: FERC should take note that the changes to the industry that resulted after the enactment of the Energy Policy Act of 1992 and the promulgation of its various restructuring orders (*e.g.*, Orders 888, 889, and 2000) have reduced reliability, and that further reliability problems will continue to arise until corrections are made. FERC could convene a technical conference to consider the impacts on reliability that have resulted since the enactment of the Energy Policy Act of 1992 and the issuance of these landmark orders.

3. If FERC has the authority to establish and enforce reliability standards, may FERC delegate such authority to a self-regulating reliability organization? Should it do so?

Response: Historically, each power company assumed responsibility for ensuring safe and reliable energy generation and delivery procedures and facilities and worked in cooperation with other utilities through the North American Electric Reliability Council (NERC). This approach worked, and NERC has done an

excellent job over the years in developing standards for Planning and Operations. NERC (or its successor) should continue to develop and update standards and guides and be responsible for the enforcement of such, but to be effective, it will be necessary for NERC to have a new level of authority, as has been discussed in the efforts to establish NERC as a Self-Regulated Reliability Organization (SRRO). To the extent that FERC has the authority to establish and enforce reliability standards, it may delegate its authority to an SRRO, provided that FERC retain the ultimate responsibility for the exercise of its authority.

But enforcement of reliability standards is not simply a matter of creating a new self-regulated organization. Currently there is no specific vision or plan to establish a restructured electric industry, and unless a national consensus can be achieved, it will be difficult to establish an integrated plan and approach. As a result, companies and vendors with specific agendas or parochial interests provide the resources (primarily staff) that ultimately drive voluntary working groups and task forces to accommodate the "requirement du jour." What follows in this deployment of applications and procedures rushed to the industry are numerous releases of software to correct bugs and incorporate critical functionality. One need only look at the example of ETAG and OASIS, and the number of releases that are currently being tested and scheduled for release. Consideration must be given and procedures established to provide some manner of integration of independently developed and deployed applications.

4. Are there elements in CECA, or other electric reliability legislative language, which can, with or without modification, be used in a rulemaking?

Response: There are elements in the various electric reliability legislative proposals that could be used in a rulemaking. Consensus was achieved on many elements of those proposals. A rulemaking should build on the consensus that has already been achieved.

5. What should the relationship be between Regional Transmission Organizations, as advanced in FERC Order No. 2000, 65 FR 809 (January 6, 2000), FERC Stats. & Regs. ¶ 31,089 (2000), and an Electric Reliability Organization as proposed in CECA?

Response: The Regional Transmission Organizations (RTO) can be responsible for implementing the policies and directives of the Electric Reliability Organization (ERO), and for making recommendations to the ERO for reliability measures that may be applied either on a regional, interconnection, or nationwide basis. It is important to realize that the electric systems in different regions of the country are not identical in the development of their infrastructure or in their operation and a "one size fits all" approach to reliability is unlikely to be in the best interest of electric ratepayers. The concept of Sub-regional Reliability Organizations or Regional Reliability Organizations that operate under the direction of ERO should be developed, and the RTOs may be the best-equipped entities to fulfill this role.

6. How should the responsibilities and roles of FERC and the States be addressed in a rulemaking?

Response: States are vitally interested in reliability. After all, it is the consumers within a particular state that are impacted by reliability problems. In light of the recent experience in California, states will be increasingly reluctant to give up their authority to protect state consumers. Furthermore, discord between the states and FERC on reliability issues will delay the solution of reliability problems. On the other hand, states may try to advance their own parochial interests at the expense of broader regional solutions. FERC and the states should be encouraged to work cooperatively in regional forums to try to achieve consensus. FERC should not attempt to pre-empt state authority in a rulemaking, as that may be counter-productive to solving reliability problems.

7. Recognizing the international nature of the interconnected transmission grid, how could implementation of mandatory reliability standards be coordinated with Canada and Mexico?

Response: The Canadian Utilities have been directly involved in the development of NERC Planning Standards and Operating Policy. We should work jointly with the Canadian utilities and include the Mexican Utilities and their respective governments to ensure whatever mandatory reliability standards are applicable to U.S. utilities are also applicable to Mexican and Canadian Utilities. Failure to do so will result in reduced reliability in each of the countries.

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Respectfully submitted,

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